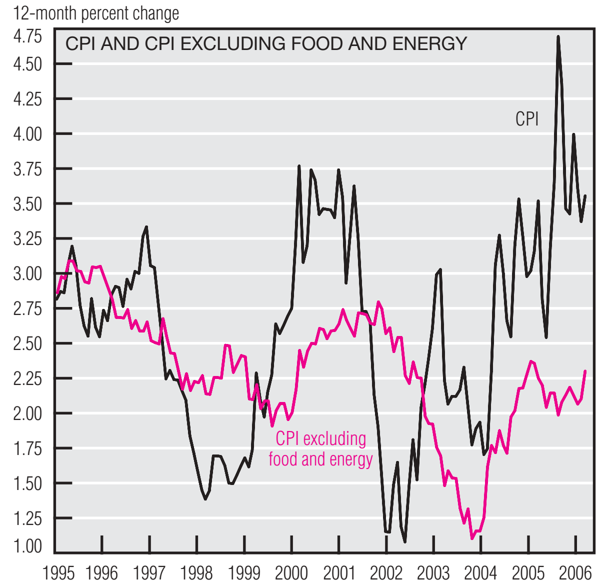
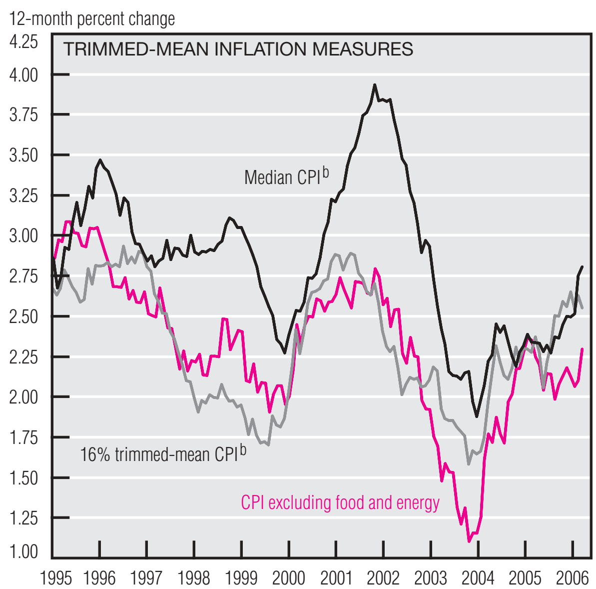
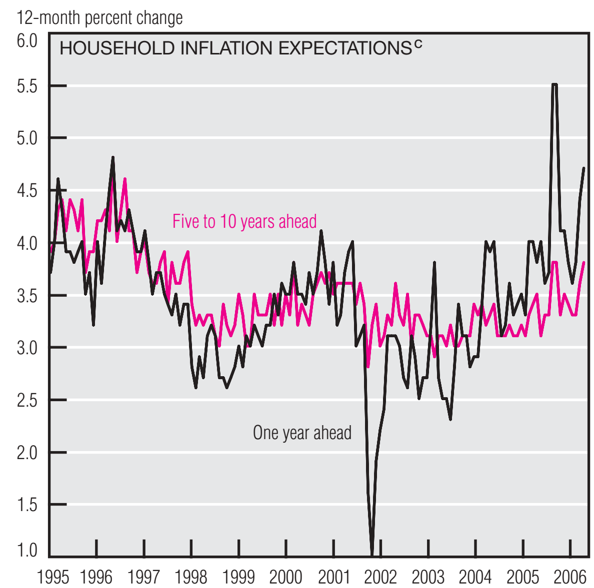
Inflation and Prices

April Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2005 avg.
Consumer prices					
All items	7.5	4.1	3.6	2.6	3.6
Less food and energy	3.6	3.2	2.3	2.1	2.2
Median[b]	3.3	3.9	2.8	2.7	2.5
Producer prices					
Finished goods	11.9	0.3	4.0	2.5	5.8
Less food and energy	1.5	2.0	1.5	1.1	1.7







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
c. Mean expected change as measured by the University of Michigan's *Survey of Consumers*.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; and University of Michigan.

Inflation pressures remained elevated in April. The Consumer Price Index (CPI) rose 7.5% (annualized rate) in April, accelerating from its three- and 12-month trends. Likewise, the CPI excluding food and energy, which jumped 4.2% in March, rose 3.6% in April, while the median CPI, which surged 5.0% in March, rose 3.3%. Monthly growth in both of these core retail price measures exceeded their longer-term growth trend.

Even longer-term growth in the inflation measures seems to be on the rise. The 12-month growth rate of the CPI excluding food and energy (2.3%) was a bit above the 2%–2¼% range in which it has fluctuated for about a year. The 12-month growth rate for the 16% trimmed-mean CPI was 2.5%, while the median CPI reached 2.8%. Growth in the core retail price measures is roughly ¼ percentage point above the late-2005 levels.

Accompanying the upward tilt in the inflation measures, household inflation expectations for the year ahead jumped to their highest level (4.7%) in a decade (excluding the months following Hurricane Katrina), while long-term inflation expectations inched upward to 3.8%, a little above the 3%–3½% range in which longer-term inflation expectations generally have been fluctuating for nearly a decade.

The stepped-up pace of retail price increases seems to have been broad-based: More than half of the index's components have shown persistent annualized monthly increases of 3% or more. Still, one particular component of the CPI has received considerable scrutiny in recent months. The owner's equivalent rent of primary

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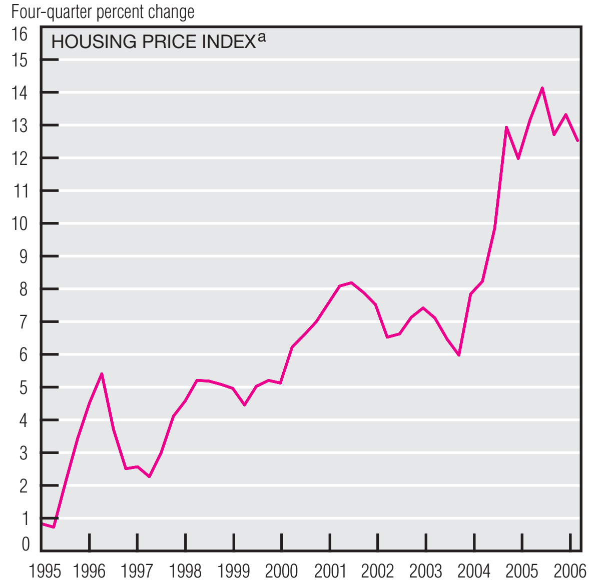
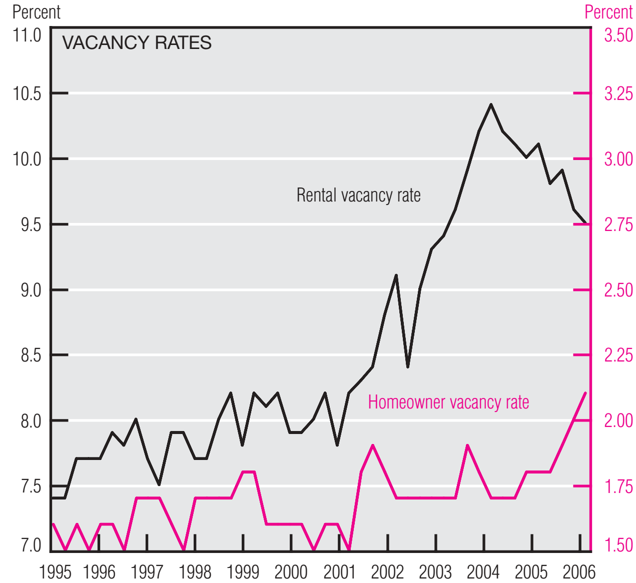
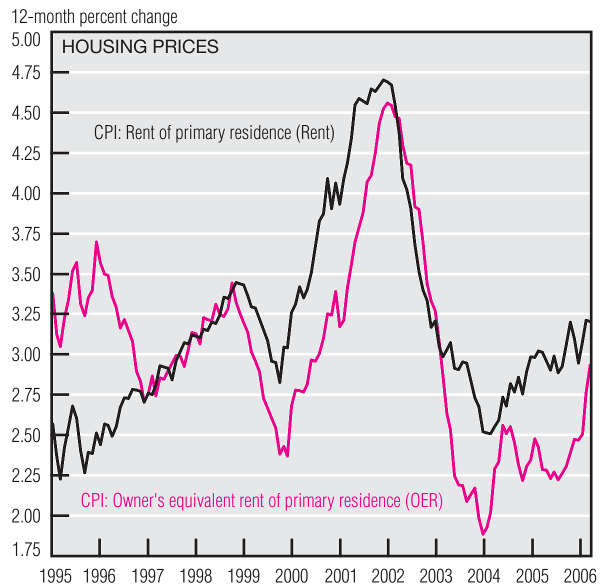
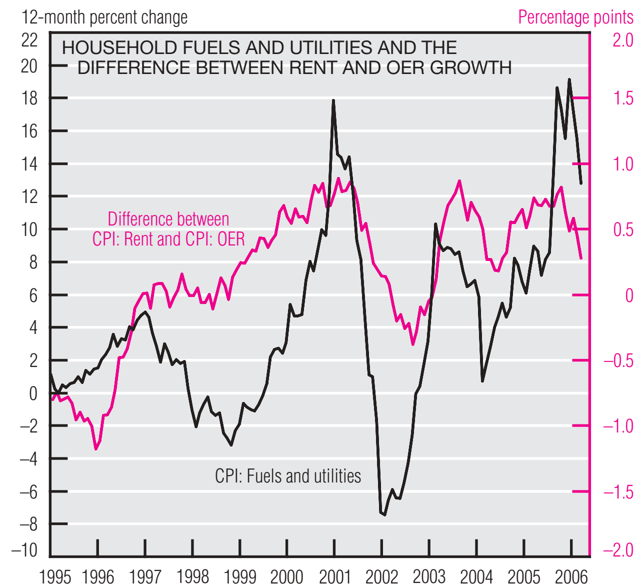
Inflation and Prices *(cont.)*









a. Calculated by the Office of Federal Housing Enterprise Oversight.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; and Office of Federal Housing Enterprise Oversight.

residence (OER)—the opportunity cost a homeowner assumes by occupying their home rather than renting it out—is responsible for nearly one-quarter of the CPI market basket, and monthly growth in OER has been brisk since the beginning of this year. There has been speculation that the OER had been understating inflationary pressures because it is computed using prices from rental markets that may have been temporarily restrained by the boom in homeownership. Indeed, the 12-month growth rate in housing prices peaked around 14% in 2005:IIQ, and rental vacancy rates, at nearly 10%, are just short of their 50-year peak. A cooling housing market, accompanied by some reduction in rental vacancy rates, may be helping to propel the OER measure higher this year.

Another factor may also be at work: Because residential leases often include utilities provided by the landlord, the Bureau of Labor Statistics subtracts these utility costs from rents when calculating OER. During periods of rising energy prices, the growth in OER may be understated until these higher energy costs are reflected in higher rents. So some of the recent upward pressure on the OER may be due to landlords incorporating the persistent rise of energy costs into their rental contracts. Those effects may have been exacerbated recently: Utility price growth has slowed a little (from 19% to about 13% on a year-over-year basis since the beginning of 2006), which means the net rental computation in the OER has been smaller this year than in late 2005.